MISC (MISC MK)

1Q26: Petroleum Anchors Growth; Prevailing LNG Risks

Highlights

- **1Q26 profit in line, driven by petroleum's outperformance.** It is clear that petroleum is the sole business segment that benefitted from the US-Iran geopolitical effects, as the spot fleet gained from the uptrend in rates, while the high second-hand tanker values helped MISC reap handsome profits from the disposal of four tankers since 2025. These masked other segments' weakness. Noting the surge in vessel deliveries in 2028, we believe MISC's capex commitment may exceed the historical US$1b p.a..
- **LNGC risks still remain.** Despite recent guidance that the QatarEnergy LNGC TC contracts will be honoured for two years in a force majeure event, a new complication has emerged, with QatarEnergy postponing yet-to-be-delivered LNGC newbuilds for up to two years. This may impact 3-7 LNGCs in MISC's newbuild fleet. On the other hand, a surprise 1Q26 impairment is reminiscent of 2025, which suggests early termination risks for the Seri-A and Seri-B class LNGC. For now, we think the petroleum sentiment remains supportive on valuations. We retain BUY and target price of RM9.50.

1Q26 Group Results

Year to 31 Dec	1Q26 (RMm)	qoq % chg	yoy % chg	Comments
Revenue	2,891.4	2.8	2.7	
-LNG/ Gas	636.2	(53.6)	(38.0)	Owned LNGC: 29 (+1 qoq; three disposed towards end-1Q26)
-Petroleum	1,252.4	25.1	21.0	Spot fleet ratio at 20-25%, vs time charters (TC)
-Offshore, MMHE	963.5	(19.2)	(1.8)	Full quarter of FPSO Mero-3 operation phase
EBIT	766.8	51.1	(10.5)	
-LNG/ Gas	303.8	na	(29.5)	Term/Spot/Idle LNGC: 23/na/8
-Petroleum	370.1	10.6	17.0	Better performance from mid-sized tankers (MST)
-Offshore, MMHE	276.9	(8.2)	(22.9)	Hit by FPSO Kikeh's downtime since 4Q25
Impairment losses	(56.1)	(84.3)	82.1	Impairments on Seri-A and Seri-B class LNGC
Finance cost	(113.2)	16.1	(28.2)	Based on our compilation, the Seri-A/ Seri-B class LNGC up for
Associates	15.9	(265.6)	45.9	Expiries in 2027-2028 are Seri Alam, Seri Ayu, Seri Amanah,
Pre-tax profit	768.7	1,563.9	4.5	Seri Angkasa, Seri Begawan and Seri Bijaksana
Income tax	(17.9)	(57.5)	(24.8)	Exceptional items (EI): RM56m impairment, RM6m net forex gain
Net profit	741.4	na	5.1	RM155m disposal gain mainly on 2 VLCC, Eagle Vancouver and
Core profit	641.0	(3.0)	(6.0)	Eagle Varna. In 2025, the disposal gain for two VLCCs was US$30m

Source: MISC, Bloomberg, UOB Kay Hian

Analysis

- **1Q26 core profit in line, comprising 24%/26% of our/consensus forecasts respectively.** The petroleum segment was once again the star performer and the only one amongst MISC's business segments that benefitted from the US-Iran geopolitical developments. The spot fleet gained from the uptrend in rates towards Mar 26. The war also contributed to rising second-hand tanker value, helping MISC reap handsome sale proceeds for the disposal of two more VLCCs in 1Q26.

Key Financials

Year to 31 Dec (RMm)	2024	2025	2026F	2027F	2028F
Net turnover	13,237	11,146	12,889	13,613	13,727
EBITDA	4,223	4,780	4,692	5,285	5,199
Operating profit	1,284	2,226	2,987	3,432	3,181
Net profit (rep./act.)	1,194	1,700	2,676	3,109	2,865
Net profit (adj.)	2,340	2,368	2,676	3,109	2,865
EPS	52.4	53.1	60.0	69.6	64.2
PE	15.7	15.6	13.8	11.8	12.9
P/B	1.0	1.1	1.0	1.0	1.0
EV/EBITDA	10.0	10.0	8.9	8.2	7.5
Dividend yield	4.4	4.4	4.4	4.4	4.4
Net margin	14.9	9.0	18.5	20.8	22.8
Net debt/(cash) to equity	23.4	19.9	23.0	23.4	24.0
Interest cover	5.9	8.2	8.4	9.1	8.8
ROE	3.2	5.7	7.3	8.3	7.5
Consensus net profit	-	-	7.3	8.3	7.5
UOBKH/Consensus (x)	-	-	8.9	8.2	7.5

Source: MISC, Bloomberg, UOB Kay Hian

BUY (Maintained)

Share Price	RM8.25
Target Price	RM9.50
Upside	+15.2%

Analyst(s)
Kong Ho Meng
homeng@uobkayhian.com
+603 2147 1987

Stock Data

GICS Sector	Industrials
Bloomberg ticker	MISC MK
Shares issued (m)	4,463.8
Market cap (RMm)	36,826.0
Market cap (US$m)	9,206.5
3-mth avg daily t'over (US$m)	3.5

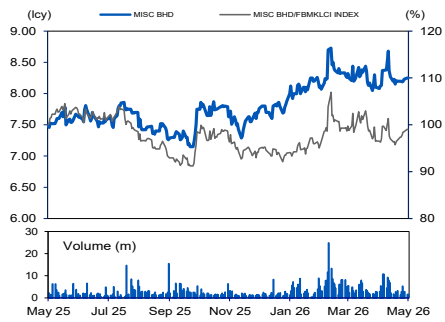
Price Performance (%)

52-week high/low				RM9.04/RM6.50
1mth	3mth	6mth	1yr	YTD
1.9	0.0	8.3	7.7	5.8

Major Shareholders %

Petroliam Nasional Bhd	51.1
Employees Provident Fund	12.9

Price Chart



Source: Bloomberg

Company Description

Shipping company. It employs finance lease (FL) accounting for assets in which it has long-term charter contracts, especially Liquefied Natural Gas Carriers (LNGC) and Very Large Ethane Carriers (VLEC). Within its petroleum fleet, it operates Very Large Crude Carriers (VLCC), mid-sized tankers, and Dynamic Positioning Shuttle Tankers (DPST). The offshore division operates Floating, Production, Storage and Offloading (FPSO) vessels, including the prominent FPSO Marechal Duque de Caxias (Mero-3). It is also the parent company of Malaysia Marine Heavy Engineering (MMHE).

- **Other segments**. The gas segment's earnings remain low despite being notably better vs 2Q25's/3Q25's base of >US$10m, as three legacy LNGCs, out of the eight idle in its fleet, were disposed of. None of the LNGC benefitted from rising spot LNG rates. Offshore segment continued to be anchored by FPSO Mero-3, which has transitioned into full operational rates since 4Q25. However, this was negated by FPSO Kikeh (the country's first deepwater FPSO), which has suffered significant downtime since 2H25 due to its ageing hull that is approaching 50 years old. The FPSO was extended from 2022 and will expire in Jan 28. PTTEP recently awarded the Sharpooji Pallonji-MTC consortium to undertake a conversion of a replacement FPSO, signalling that this option is more feasible vs the option of FPSO's life extension which is becoming more complex.
- **VLCC rejuvenation and supply chain inflation are upside risks to capex,** historically at US$1b p.a**.** Tradewinds reported that AET Tankers is investing >US$0.5b to rejuvenate its fleet of nine VLCCs, with average age of 7.2 years (industry: 10.5 years). A series of LNG-dual newbuilds were ordered at Hengli Heavy in China. We believe the orders will have at least four VLCCs, matching the disposal of four tankers since 2025. MISC is also not fully immune to supply chain costs pressures arising from the US-Iran conflict. While long-lead items had been procured earlier, not all of its contracts (especially with vendors) are on an alliance basis, with some on a lump-sum basis. Marine contracts are the exceptions as fuel costs are traditionally passed through.
- **We turn more cautious on LNGC risks...** Earlier, we highlighted that there would not be any LNG earnings risk for the 2026 horizon, as the next batch of legacy LNGC expiries will be effective from 2027 onwards. However, the surprise 1Q26 LNGC impairments are reminiscent of the quarterly impairments in 2025, on legacy LNGC tracking their market values. The trend also correlates to the number of idle LNGCs, as two LNGC in 2025 had early terminations. Hence, we assume the current impairment's timing is a strong sign of early termination/idling risks for the Seri-A and Seri-B class LNGCs, which in turn is a material 2026 earnings risk.
- **…including QatarEnergy LNGC**. MISC guided investors that the TC agreements will be honoured for at least two years, until the force majeure clauses allowing for termination is permissible. However, a new complication has emerged, with Tradewinds reporting that some of the LNGC contracts carry a clause called "Indefinite Delay Option", which allows for postponement of newbuild LNGC delivery in a force majeure event. QatarEnergy is exercising the deferral options for up to two years, but with six months' notice prior to delivery. This is not a risk to the eight LNGCs already delivered, but is a risk for the remaining 3-7 LNGCs, especially because MISC is less important vs Nakilat in QatarEnergy's LNGC shipowner pecking order. Management's stance is that there is no disruption to newbuild deliveries, as of now.

Valuation/Recommendation

- **Maintain BUY, with an SOTP-based target price of RM9.50** implying 16x 2026F PE. We retain our 25% LNG discount in our SOTP given that we see new risks for LNG in the 2026 horizon (early terminations and QatarEnergy's LNGC) vs our previous assumption. We retain the high 1.4x P/B valuation for petroleum to factor in positive trading sentiment even though spot rates have reverted to pre-war levels. For the long term, we see increasing capex commitments and vessel deliveries in 2028, which we believe is inevitable for MISC to meet its MISC2030 cash flow growth targets (50% operating cash flow growth by 2030, from 2022), and hence its dividend paying ability.

Earnings Revision/ Risk

- **We retain our earnings forecasts.**

PAT Segmental Breakdown

US$m	1Q26	4Q25	1Q25
	189	5	160
LNG/ Gas	33	(96)	47
Petroleum	129	81	67
Offshore	19	16	47
MMHE	4	12	3

Note: We estimate Petroleum PAT contained disposal gain >US$30m
Source: MISC

LNGC And Vessel Deliveries

Year	As of 1Q26	As of 4Q25
2026	7 LNGC	8 LNGC
2027*	4 LNGC	4 LNGC+ 2 Aframax
2028	2 VLEC + 1 LCO2 + 1 FSO + 3 MST + 1 DPST	2 VLEC + 1 MST
2029	5 LNGC + 1 MST + 1 FPSO	1 MST + 1 FPSO
Total	Gas: 19; Petroleum:5; Offshore: 2	Gas: 14; Petroleum:4; Offshore: 1

Source: MISC

Tankers TC Equivalent (TCE) Earnings

		15 May	w-o-w %	last 12 months min	avg	max
Baltic tanker indices						
BDTI		2,375	-7.7%	881	1,607	3,737
BCTI		1,726	-6.8%	534	941	2,202
VLCC						
VLCC-TCE	$/day	$ 220,361	-5.3%	$ 25,096	$ 104,321	$ 318,777
1 year period	$/day	$ 123,500	0.0%	$ 42,000	$ 68,675	$ 130,000
Suezmax						
Suezmax-TCE	$/day	$ 109,747	-8.5%	$ 27,302	$ 88,709	$ 279,748
1 year period	$/day	$ 77,000	0.0%	$ 30,750	$ 47,127	$ 85,000
Aframax						
Aframax-TCE	$/day	$ 63,098	-24.7%	$ 23,251	$ 65,988	$ 232,626
1 year period	$/day	$ 57,500	-14.8%	$ 29,250	$ 40,797	$ 71,250

Source: Allied Shipping Weekly

8 More Potential LNGC Expiries

LNGC	Year built	Expiry
Puteri Zamrud	1996	Dec 26
Aman Sendai*	1997	Jan 28
Seri Alam	2005	Sep 25 (old), Mar 28
Seri Ayu	2007	Oct 37 (old), 2027
Seri Amanah	2006	Apr 26 (old), Mar 28
Seri Angkasa	2006	Jan 37 (old), 2027
Seri Begawan	2007	Apr 38 (old), 2028
Seri Bijaksana	2008	Oct 27

**Note: Aman Sendai is owned by Asia LNG Transport SB (ALT), a JV withj Nippon Yusen. Despite owning 49% stake, MISC deems it as a subsidiary. ALT reported losses save for 2018.*
*** The TC for Seri Ayu, Seri Angkasa and Seri Begawan was terminated and early, and the vessels will be redelivered on the 20th year anniversary of their respective time charters in 2027/ 2028. Seri Alam and Seri Amanah had new TC extended until Mar 28.*
Source: MISC

Environmental, Social, Governance Updates

Environmental

- Carbon (CO2) reduction. Adding new vessels with LNG-dual/ ammonia fuel to meet IMO aspirations (50% greenhouse gas & 70% CO2 reduction by 2050)
- Promoting circular economy via green ship recycling. Aims to avoid wastage while disposing of aged vessels that do not meet the carbon reduction criteria.
- Safety (HSE). Lost Time Injury Frequency (LTIF) improved to 0.18 (AET: 0.07).

Social

- Diversity. >20 nationalities, >40% female proportion among onshore staff.
- Digitalisation/ R&D. Invested RM202m in 2020 to improve employee safety, productivity, maritime supply chain and compliance

Governance

- Achieved 5/5 rating (FTSE4Good) for governance & supply chain management.

Source: UOB Kay Hian Estimates

Profit & Loss

Year to 31 Dec (RMm)	2025	2026F	2027F	2028F
Net turnover	11,146	12,889	13,613	13,727
EBITDA	4,780	4,692	5,285	5,199
Deprec. & amort.	18,865	18,159	17,704	17,602
5,799	5,859	6,188	6,239	3,181
Associate contributions	29	312	330	312
10,959	11,519	12,079	12,639	(589)
Pre-tax profit	2,226	2,987	3,432	3,181
Tax	(124)	(63)	(72)	(71)
Minorities	(38)	(249)	(251)	(245)
Net profit	1,700	2,676	3,109	2,865
Net profit (adj.)	2,368	2,676	3,109	2,865

Balance Sheet

Year to 31 Dec (RMm)	2025	2026F	2027F	2028F
Fixed assets	20,863	22,963	25,063	27,163
Other LT assets				
Cash/ST investment	6,096	6,252	6,320	6,320
Other current assets				
Total assets	53,014	55,228	57,607	59,979
ST debt	1,921	2,800	2,800	2,800
Other current liabilities	5,742	5,715	4,154	4,536
LT debt	11,747	12,307	12,867	13,427
Other LT liabilities	885	885	885	885
53,014	55,228	57,607	59,979	38,045
Minority interest	697	946	1,197	1,443
Total liabilities & equity	53,014	55,228	57,607	59,979

Cash Flow

Year to 31 Dec (RMm)	2025	2026F	2027F	2028F
Operating	4,277	4,753	5,296	5,904
Pre-tax profit	1,284	2,746	3,041	3,482
Tax	74	(58)	(64)	(73)
Other operating cashflows	2,919	2,064	2,319	2,495
Investing	(1,192)	(2,627)	(3,827)	(3,827)
Capex (growth)	(1,985)	(4,620)	(4,620)	(4,620)
Others	793	1,993	793	793
Financing	(4,166)	(2,011)	(2,011)	(2,011)
Others/interest paid	(4,166)	(2,011)	(2,011)	(2,011)
Net cash inflow (outflow)	(1,080)	115	(542)	67
Beginning cash & cash equivalent	7,732	6,677	6,793	6,252
Changes due to forex impact	25	1	1	1
Ending cash & cash equivalent	6,677	6,793	6,252	6,320

Key Metrics

Year to 31 Dec (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	31.8	29.6	39.2	39.7
Pre-tax margin	9.7	16.9	22.2	23.1
Net margin	9.0	14.9	19.7	20.8
ROA	2.0	4.1	4.6	5.2
ROE	3.2	6.3	7.0	7.9
Growth				
Turnover	3 w-8	69.2	42.4	56.8
EBITDA	0.5	15.0	28.1	42.9
Pre-tax profit	(54.4)	(2.4)	8.1	23.8
Net profit	(53.8)	(6.4)	4.5	21.4
Net profit (adj.)	(6.3)	3.2	11.7	16.1
EPS	20.2	24.0	38.5	60.8
Leverage				
Debt to total capital	40.4	40.2	40.4	40.2
Debt to equity	41.2	41.3	41.7	41.6
Net debt/(cash) to equity	23.4	23.6	25.9	26.2
Interest cover	5.8	7.0	7.6	8.2

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